



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

January 31, 2012

The Honorable Robert P. Casey
United States Senate
393 Russell Senate Office Building
Washington, DC 20510

Dear Senator Casey:

Thank you for the copy of your letter to President Obama about investment practices of Freddie Mac. Any indication that Freddie Mac would utilize a mortgage financing vehicle to prevent homeowners from refinancing would certainly be cause for the concerns you expressed. The underlying premise of the ProPublica story, that Freddie Mac securitization and investment practices are meant to inhibit mortgage refinancing, is simply incorrect.

FHFA as well as Fannie Mae and Freddie Mac are fully committed to the success of the Home Affordable Refinance Program (HARP). This is a valuable tool that provides assistance to borrowers seeking to refinance while at the same time lessening the Enterprises' credit risk. Freddie Mac's retained portfolio investment in inverse floaters did not – and was not intended to – have any impact on homeowners' ability to refinance.

Overall, 74 percent of Freddie Mac's business in 2011 was refinanced mortgages. In 2009 and 2010, refinancings were 80 percent of Freddie Mac's business. In those three years Freddie Mac refinanced more than 4 million mortgages totaling \$855 billion. Since the inception of HARP in March 2009, Freddie Mac has refinanced 470,832 loans through the program and an additional 3.4 million loans through standard refinancing.

The transactions that were the subject of the story did, however, present other supervisory concerns regarding the controls, including risk management, surrounding that type of financial instrument. Of Freddie Mac's retained portfolio of \$650 billion, \$5 billion, or less than one percent, are inverse floaters. Freddie Mac's retention of inverse floaters ceased in the spring of 2011 and the company has taken the necessary steps to prevent their further creation through mortgage sales and structuring. FHFA's concerns arose through its supervisory process, which found that the risk associated with these transactions is inconsistent with FHFA's goal of having Freddie Mac reduce its risk profile and avoid unnecessary complexity that requires specialized risk management practices.

To address public concerns regarding these investments, FHFA issued a statement on the day the ProPublica story was published. I've enclosed a copy of that statement.

I appreciate your sharing your serious concern about this important matter. If you would like further information on this or related Enterprise matters, please contact me or Peter Brereton, FHFA's Associate Director for Congressional Affairs, at (202) 649-3022.

Yours truly,



Edward J. DeMarco
Acting Director

Enclosure

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The transactions that were the subject of the story did, however, present other supervisory concerns regarding the controls, including risk management, surrounding that type of financial instrument. Of Freddie Mac's retained portfolio of \$650 billion, \$2 billion, or less than one percent, are inverse floaters. Freddie Mac's retention of inverse floaters ceased in the spring of 2011 and the company has taken the necessary steps to prevent their further creation through mortgage sales and structuring. FHFA's concerns arose through its supervisory process, which found that the risk associated with these transactions is inconsistent with FHFA's goal of having Freddie Mac reduce its risk profile and avoid unnecessary complexity that requires specialized risk management practices.

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